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Realty Stock Review
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Investment Builders Grapple with Faltering Retailers

The financial press is having a field day with woes of two major retailers who sought to use retailing as their wedge into becoming national mall builders. They are now being consumed by financial disasters of their own making. The impact is sending major shock waves thru the junk bond market, source of much of their funding.

Despite the crepe headlines, we think these retailer troubles are isolated and doubt they will have any lasting impact on the investment builder group reviewed this month. Look carefully at the unfolding retailing disasters:

1. **Campeau Corp.**, a Canadian realty company which assembled a U.S. retailing empire by buying both Allied Stores and Federated Dept. Stores using a mountain of junk bond financing, was forced to borrow $250 mil. to meet a Sept. 15 debt maturity. Campeau put its jewel, Bloomingdale's, up for sale and Pres. Robert Campeau effectively ceded operating control to his rescuers, Canadian realty giant Olympia & York. Campeau had aspired to use its retailers as the base to build up to 100 new malls over the next decade.

Many suppliers and financiers are holding up Christmas inventory shipments to Federated/Allied stores until they see the color of Campeau's money. Thus the 258 Federated/Allied department and specialty stores could limp into the crucial Christmas selling season, bad news indeed for shopping centers they anchor.

2. **Hooker Corp.**, an Australian retailer that entered the U.S. with a big splash by buying four retailers — B. Altman, Bonwit Teller, Parisian and Sakowitz — filed Ch. XI on Aug. 9, effectively ending its dream of becoming a major U.S. mall developer by "owning the store." It has put three malls and nine strip centers on the block, many anchored by Hooker stores.

The best thing about these disasters is that they should cool the ardor of leveraged buyout artists and their compliant institutional financers to leverage major retailers to the moon so they can control real estate. Old line retailers limit debt because they know that small sales declines can translate into major profit and cash flow squeezes.

So much for the investment strategy of buying retailers to cash in on their underlying real estate. We still think it's far better for you to focus upon major-league investment builders (e.g., Forest City and Rouse) whose focus remains on building profitable real estate and who have no desire to "own the store." (Real estate developers rarely make good retailers, and in fact Forest City sold its original retail division in 1987.) We retain both FCE and ROUS in Portfolio Selector.

Business focus also is a dominant issue for the community builders reviewed this issue. Two, Fairfield Communities and Landmark Land, are expanding financial arms that put them in other businesses and change the EPS/CFS outlook. Developers seldom made the leap to successful financial companies, so we think you should be skeptical of these moves. Both Fairfield and General Development also are big players in the evolving timesharing market, which shows signs of heating up with some big players (Disney, Marriott) in the fray.

The other community developers have focus but operate in lackluster markets. Diversifying Del Webb Corp. still is big in the soft Phoenix market and Amrep Corp. is building value slowly and steadily for its Albuquerque land. Six of the eight stocks reviewed this issue are maintained in Portfolio Selector.

PORTFOLIO SELECTOR CHANGE: We are removing Lomas Financial Corp. from Portfolio Selector because we now see a much-delayed recovery. In late August LFC stunned investors by saying it might not be able to repay $145 mil. of debt maturing Aug. 31. Payments weren't made and LFC subsequently says it is making encouraging progress in completing a credit agreement to cure the default, altho two banks are balking. Assuming the new credit falls into place, LFC will be left as a highly leveraged company (about 10-1 debt/equity ratio) and much more dependent upon Texas real estate recovery than expected in our Aug. 11 Review. There may be an upward blip if and when LFC resolves its credit agreement, but long-term holders should look elsewhere.

IN THIS ISSUE

AMREP CORP. (AXR: NYSE) RANK C

The developer-builder of the 26,000-acre Rio Rancho community near Albuquerque, N.M., AXR's sales and EPS mainly reflect housing and commercial land sales at Rio Rancho. This steady but unspectacular business provides the community growth fueling long-term appreciation in the value of AXR's unsold acreage.

While AXR hatches this egg, it has diversified into home and apartment building in Florida, and into magazine distribution and subscription fulfillment via its Kable News subsidiary. Takeover talk periodically swirls around AXR and we continue AXR in Portfolio Selector because of its 33% discount to historic-cost book value. We also maintain our C Rank.

Gut Issue: Will anybody make a run at asset-rich AXR amid today's housing and real estate doldrums? When real estate was hot in the early and mid-1980s, AXR attracted — and repelled — several takeover bids from a list of acquisition artists including Saul Steinberg and New York investment managers Morgens Waterfall in 1982; and Canadian investor George Mann (who controls Unicorp American Corp.) in 1983-84.

More recently management has been subtly signalling its willingness to talk about any takeover bid that included all shares. This is in line with AXR's 1984 adoption of an anti-takeover package that included a "fair price" clause forcing takeover hopefuls to pay a single price to all shareholders (i.e., no two-tier offers). When AXR finally prevailed a year ago in long-running litigation with the Federal Trade Commission over AXR's pre-1977 installment land sales, some savvy investors figured a takeover bid might be forthcoming.

But in the intervening year nothing tangible has developed, except that shares are increasingly concentrated in fewer hands and open market trading becomes thinner. The share price has drifted down from about $8.50 to below $7, even tho we understand a group of English and Scottish investors recently bought about a 2%-3% block of AXR stock. All told Brit and Scot institutions may own 20% or so.

Another 20.6% of shares are currently held by three U.S. investment groups: Kane Miller Corp., Tarrytown, N.Y. private food company and stock investor, with 8.2%; estate of investor H.C. Bennett, Wichita, 6.6%; and clients of Dimensional Fund Advisors, Inc., Santa Monica, Cal., 5.8%. Insiders own 6.0%.

The honey attracting the bees is clearly AXR's 26,000 acre land inventory at Rio Rancho, a major community begun as an installment land sales project in the 1960s. Rio Rancho, 11.5 miles northwest of Albuquerque, sits in the path of Albuquerque's main expansion route and has grown into a city of 32,000, mostly first-time homebuyers attracted by its cheaper house prices.

Current asset value. AXR book value of $10.20/sh. puts an $800/acre value on AXR's 26,000 acres, of which 6,200 acres are in contiguous blocks suitable for current development; the rest is scattered tracts.

Land values, however measured, appear many times AXR's cost: a typical building lot of about 3/4 acre is valued at $10-$12,000 today while commercial land is at $3.50-$5/sq. ft. or $150,000-$200,000 per acre. We estimate current asset value at well above book value, but how much above depends upon the pace of development.

EPS and development pace. Rio Rancho house sales fell 7% to 706 units in AXR's April 1989 year, result of new FHA mortgage rules. Average sale price rose 3% to $60,000 however. In Feb. 1989, AXR attracted its first Japanese company, Olympus Corp., to Rio Rancho, to employ 350 and giving Rio Ranch over 6,000 jobs. Backlog has been strong and EPS rose to $0.05/sh. in the July qtr. on a 31% revenue jump.

In Fla., a 248-DU Orlando apartment has rented rapidly (now 98% full) and occupancy at a 300-DU W. Palm Beach congregate care center should begin in Dec. Both income properties will be sold when rented.

Advice: Buy for aggressive accounts with patience to wait until something happens at AXR. The 33% discount to cost-basis book value should be rewarding longer term. (KDC)

AXR: NYSE Rank C April years 6.61 mil. shs.
Price: $7.00 Div. None Yld. 0.0% Price X EPS: 31

Year	Op.EPS	Div.	High	Low	Pr.X EPS
1986	$1.44	$0.00	$22.50	$ 9.13	15.6- 6.3
1987	0.94	0.00	23.38	11.25	24.9-12.0
1988	0.31a	0.00	16.88	6.38	54.2-20.6
1989	0.19	0.00	9.88	7.25	52.0-38.2
1990E	0.30	0.00	8.38	6.50z	

a-Plus $0.53 cumulative effect of accounting change. z-To date.

Finances 4/89 (Mil.$): Debt: $78.9M; Equity: $67.4M or $10.20/sh. Debt/equity ratio: 1.17-1.
Address: 10 Columbus Cir., New York, N.Y. 10019. (212) 541-7300.

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AUDIT INVESTMENTS, INC., 136 SUMMIT AVENUE, MONTVALE, NJ 07645-1720 Phone (201) 358-2735
KENNETH D. CAMPBELL, PRESIDENT / FAYE KREISMAN, STATISTICS / MICHAEL HOUSTON, ANALYST.

FAIRFIELD COMMUNITIES INC. (FCI: NYSE) RANK C

FCI develops recreational/resort and retirement communities, plus primary residential tracts, thru-out the Sunbelt. FCI's Resort Community Group operates 10 full scale resort communities, including five with timesharing locations, covering 60,600 acres in ten Sunbelt states; plus running five homebuilding tracts in Ariz. and Ga. The Homes Group builds residential developments in 14 locations primarily in Ariz. and Fla. and maintains FCI's portfolio of commercial properties.

In June, 1989 FCI acquired an S&L in N.Car., $448 mil. asset First Federal Savings and Loan, for $24.1 mil. cash (including $12.8 mil. in goodwill). The deal expands FCI's financial group and could relieve some of the seasonality and interest vulnerability in earnings. FCI's financial group also includes Fairfield Acceptance Corp., financing arm for installment paper; Imperial Life Insurance Co.; and mortgage broker Fairfield Mortgage Corp. We maintain our C Rank for FCI and continue shares in the aggressive recovery group in Portfolio Selector.

Gut Issue: Will shrewd financial management be enough to put FCI back on the track of profitability? With the acquisition of First Federal, FCI now has the ability to cash out of its portfolio of timeshare and lot contracts receivable. Thru July, FCI has sold $144.3 mil. of its receivables to First Federal at par, a good price compared to third-party transactions. Proceeds were used mostly to pay down debt. By unburdening its balance sheet FCI has effectively lowered its cost of capital and in addition receives fee income for servicing the loans.

Timeshare heating up. While all this financial maneuvering has desirable near-term effects, timesharing remains crucial in FCI's EPS outlook. Timesharing accounts for one-third of FCI's revenues and double that in gross profit. Whether timeshare will remain the profit juggernaught remains an open question. Timeshare sales still remain quite lucrative and the industry has attracted a lot of attention. But growth in industry timeshare sales may already be slowing and entry of well-heeled players like Marriot, Disney and General Development Corp. could help to foster a shake-out.

FCI's timeshare gross margins are not yet suffering and actually increased to 75% from 73% a year ago. Selling expense is on the rise, however. FCI still relies on timeshare sales as a substantial base of its operations (61% of gross profits thru June 30, vs. 73% last year). Net timeshare sales fell to 30% of revenues at June, 1989 from 34% in 1988.

EPS Outlook. FCI lost $0.40 in the first half of 1989 and while the second half historically is stronger, we think FCI will make up only part of the loss, winding up losing about $0.25-$0.30/sh. for 1989. Looking further out, the receivable sale to the newly acquired S&L should aid EPS considerably, because FCI had delayed selling receivables pending the S&L acquisition. And the S&L opens a door for continued financing of receivables, cutting FCI's interest costs and resulting vulnerability to interest swings. Our early view is that FCI should be nicely profitable in 1990.

Moreover, FCI has ample assets to generate profits. Its land holdings are low-cost and permit bulk and installment sales at high margins. During the June qtr., commercial property sales generated $5.1 mil. gross profit, the biggest boost coming from sale of a Jacksonville, Fla. tract for $12.1 mil., generating $3.5 mil. gross profit. And while commercial sales are not constant from qtr. to qtr., they are part of FCI's attraction. FCI has trimmed expenses, altho not enough yet to provide positive earnings.

Takeover potential? The Atlantic Group (formerly Nutrition World) holds 18.13% of FCI, following an aborted takeover bid. Atlantic Group is under a standstill and secrecy agreement with FCI thru July, 1991. Possibility of takeover still adds some excitment to FCI's stock. Other big holders include Merrill Lynch Asset Mgmt. with 7.75% and First Chicago Corp. with 7.62%. As a group, FCI directors and officers control 13.03% of shares.

Advice: Hold for recovery or wait. FCI is pruning unprofitable units to restore profits in competitive markets. (MJH)

FCI: NYSE RANK C Dec. years 10.86 mil. shs.
Price: $6.38 Div. None Yld. 0.0%

Year	Op.EPS	Div.	High	Low	Price/earn ratio
2/85	$1.49	$0.165	$16.75	$9.63	11.2-6.5
2/86	0.83	0.185	15.50	9.88	18.7-11.9
12/86a	(1.62)a	0.15a	13.88	7.00	d - d
12/87	0.13b	None	12.00	4.38	92.3-33.7
1988	0.17b	None	6.38	4.50	37.5-26.5
1989E	d(0.30)	None	7.75	5.75z	

a-10 mon. b-Excl. taxloss benefits: $0.06/sh. in 1987; $0.11-1988. d-Deficit. z-To date.

Finances 6/89 (Mil.$): Debt: $411.7M; Equity: $105.3M or $9.64/sh. Debt/equity ratio: 4-1.
Address: 2800 Cantrell Rd., Little Rock, AK 72202. (501) 664-6000.

GENERAL DEVELOPMENT CORP (GDV:NYSE) RANK C

GDV, Florida's largest community developer, sells homesites, houses, timesharing units, and commercial land. With the 1988 divestiture of Florida Residential Communities, GDV has focused its home building operations around its nine planned communities in Fla. In Feb. 1989, GDV acquired West Coast timeshare operator/developer Glen Ivy Financial Group for $65 mil. in cash plus contingency payments of up to $23.5 mil. The addition of Glen Ivy deepens GDV's commitment to timeshare and gives GDV 12 more properties in the West. The Portfolio Selector shares hold at C Rank.

Gut Issue: Will timesharing provide GDV with the motor to resume earnings growth? Timesharing is a growth industry that is quickly approaching $2 bil. in sales. To bolster its profitability, GDV has made an increasing commitment to its timesharing segment with the recent purchase of Calif. timeshare developer, Glen Ivy Financial Corp.

The new operations make GDV the nation's largest timeshare developer with $55.9 mil. sales in the first half, vs. $47.6 mil. sales for Fairfield Comm. Timesharing contributed 73% gross margin to GDV in the first half, or $40.9 mil. gross profit. But higher selling costs, partly attributed to the expanded timeshare unit, hurt profits and EPS fell 48% to $0.51 in the first half. Hopefully timeshare will trigger a reversal in the second half.

The timeshare industry's potential has not been lost on some hotel and entertainment giants. With Disney, Marriott, and others jumping into the fray, timeshare sales costs could escalate and margins could become increasingly squeezed. So far no margin squeeze has shown up in GDV or Fairfield. But with increased competition, profits could dry up, even in a growing industry.

Housing and homesite strength. Homebuilding sales for the six months rose 33% to $60.2 mil. GDV closed and delivered 689 homes in the period, up 38% from 1988's 500. New orders were down 25% to 623 DU. Backlog fell 10% to 730. Average home price fell 3% to $87,000, reflecting new focus on affordability.

Net homesite revenues rose 33% to $143.1 mil. in the six months, while new contracts increased 40% in the period to $206.2 mil. At GDV's other segments, commercial land sales were $13.8 mil., down 25%, and utilities revenues of $18.2 mil. rose 17%.

EPS outlook. GDV expects stronger timesharing, homesite and commercial land sales to produce a much stronger second half, leading to moderate operating EPS gains for the year to about $2.00/sh..

Takeover pressure. GDV is still under pursuit by Amruss Partners, an Englewood, Colo. group headed by investors and developers Robert and Deborah Russell, who were seeking to acquire GDV for $18/sh. cash plus a $5 debenture. GDV turned them down. Also interested in acquiring GDV is **United Capital Corp.** (ICU: ASE), formerly Metropolitan Consolidated Industries, Inc. and Metex Corp. ICU has acquired 9.9% of GDV's 8.65 mil. shares and expects to acquire up to 15%. GDV refused to waive or amend its bylaws to allow ICU to offer an alternative slate of directors at GDV's May annual meeting.

With book value of $23.80/sh. and perhaps $8 of unrealized value in its utility plants, GDV remains a tempting target. It was spun out publicly in the breakup of City Investing Corp. in Sept. 1985 and as result six institutions own about 46% of shares fully converted. Management owns about 7.4% including stock options, with the chairman and president owning about 2.4% each.

Advice: Hold/buy below 14 for profit recovery or trade if that is your appetite. (MJH)

GDV: NYSE Rank C Dec. years 8.60 mil. shs.
Price: $14.50 Div.None Yld. 0.0%

	Op.EPS	Div.	High	Low	Price/EPS
1985	$3.01	$0.00	$15.63	$ 9.88	5.2- 3.3
1986	2.67	0.00	25.25	14.13	9.5- 5.3
1987	2.66a	0.00	26.63	8.13	10.0- 3.0
1988	1.80b	0.00	19.50	10.38	10.8-5.8
1989E	2.00	0.00	18.88	11.88z	

a-Before $0.06 loss on discont. opers. b-Before d$1.60 discontinued lines and charges and $2.13 credit accounting change. z-To date.

Finances 6/89 (Mil.$): Debt: $783M; Equity: $202M or $23.80/sh. after preferred. Debt/equity ratio: 3.9-1. Prudential owns $25 mil. pfd. convertible at $25.
Address: 1111 S. Bayshore, Miami, Fla. 33131. (305) 350-1200

FOREST CITY ENTERPRISES INC. (FCE: ASE) RANK B

This Cleveland-based company builds major urban developments it hopes will have some lasting monopoly value. This strategy is designed to enhance value for future generations of the founding Ratner family, which owns 69% of Cl. B shares, which elect 75% of directors, The family also holds 64% of Cl. A shs. Both classes are ASE traded.

Now FCE has hired an investment banker to map a plan for maximizing share value, indicating younger generations may be restive to realize some of the accumulated value in FCE. Two savvy investment groups have assembled blocks and may influence form of the restructuring. We hold our B Rank on shares and maintain in Portfolio Selector.

Gut Issue: What shape will a restructured FCE take? Over the years FCE has gradually pruned non-real estate operations to focus more upon developing major urban multi-use properties. In 1987 it sold its do-it-yourself retailing stores, its original operating base, altho FCE still engages in lumber wholesaling. Management suggests that among options being considered is separating out all operations not related to investment properties, including FCE's vacant land and homebuilding units. We have two conceptual guesses:

One: FCE may move toward providing investors with current value estimates for its shares, thereby lifting a long-held veil over FCE's underlying values. If it follows this route, FCE will most certainly be trying to establish the same credibility for its value estimates already enjoyed by the Rouse Co., whose share price closely tracks current value (see below).

Two: FCE will become more active in public capital markets, with the implication that the Ratner family's dominant holdings may be trimmed over time. This might take the form of

public equity offerings to sell both new and insider shares. FCE has raised capital only twice in two decades, both times via convertible debenture sales: $40 mil. in 1986 and $12 mil. in 1966. A more active strategy would let family members who want to cash out on FCE's property values, and simultaneously stimulate a more active trading market in FCE shares.

The problem with FCE as presently constituted is that it's a public company in name only: Heavy Ratner family ownership discourages broad public interest. Withal, two savvy investment groups have assembled sizeable blocks and their presence may influence form of the restructuring. Irving Harris, Harris Assoc. and Wm. Harris Investors, unaffiliated parties all of Chicago, own approx. 12.4% of the A stock and 11.7% of the B, altho these totals may have some overlap; and Interstate Properties, N.J. developer, and investors including Steven Roth of Vornado hold 6.6% of the B stock and 3.5% of the A stock. The Interstate/Roth group is seeking Federal permission to raise its stake to 15%.

There's no question about FCE's ability to create real estate projects with longer economic lives and values than most run-of-the-mill projects. FCE does this by tackling projects where its size and experience preclude most competitors. In recent years this course led FCE into undertaking major urban renewal projects where FCE shoulders the higher risk of pioneering in rundown neighborhoods but has loads of local support, including some public financing.

Operations and CFS: FCE results include both unconsolidated Forest City Rental Properties Inc., a $1.3 bil.-asset investment builder, and parent company operations in land sales, merchant building, and lumber brokerage and wholesaling. Combined revenues hit $293 mil. in FCE's Jan. 1989 fiscal year, up 6%. Revenues were 69% property rents and 31% from Enterprises operations.

FCE net cash flow, including deferred income taxes and mortgage interest but after mortgage principal payments, reached $33.7 mil. or $4.24/sh., up 13%. FCE's common is selling at about 12.3 times the latest 12 months' net cash flow, vs. CFS multiples of 13-16 for most equity REITs and 15-20 for other investment builders (see page 1). We think FCE CFS will grow about 5% to $4.45-$4.50/sh. in 1990. Our cash flow estimates include about $1.30 in deferred taxes, $0.56 accrued deferred interest, and are after about $0.82/sh. equity buildup via debt repayment.

Assets and Current Value: Based on the above CFS and FCE's net operating income, we estimate current value at north of $70/sh. and may top $80/sh. Rental Properties' assets now top $1.34 bil. at cost, more that doubling holdings of two years ago. Property assets include $230.5 mil. (or 17%) projects under construction; $76 mil. (or 6%) land for development; and $1.03 bil. (77%) completed properties.

Completed holdings at cost are 43% in a net 9,603 apartments; 29% in 18 regional malls with 10.8 mil. gross and 3.2 mil. net SF; and 26% in eight office/mixed use projects with 1.7 mil. SF; plus interests in four hotels. FCE has 900,000 SF shopping centers and 1.1 mil. SF mixed used/office under construction. Here's a brief rundown of projects in progress:

<u>Metro/Tech, Brooklyn</u>: This projected $1 bil. academic/hightech project on 16 acres adjoining Brooklyn Polytechnic Institute got a boost when Chase Manhattan decided to build 1.5 mil. SF for back-office operations. FCE has begun building a 528,000 SF office to be 45% occupied by Securities Industry Automation Corp., and a 924,000 SF building to be 49% occupied by Brooklyn Union Gas Co. should begin soon. A year ago FCE opened the adjoining One Pierrepont Plaza, now almost fully leased, mainly to Morgan Stanley Co.

<u>University Park at M.I.T., Cambridge, Mass.</u>: The 106,000 SF Jackson Bldg. is 95% leased and 121,000 SF Clark Bldg. opened in May after strong pre-leasing. The park will have 2.2 mil. SF.

<u>Tower City, Cleveland</u>: FCE is building a 336,000 SF shopping arcade here next to a refurbished hub of Cleveland's rapid transit system. On adjoining parcels it plans a 130,000 SF office topped by a 207-room Ritz Carlton Hotel; and a renovated 489,000 SF Old Post Office, now renamed MK Ferguson Plaza for its major tenant.

<u>Chicago Central Station</u>: FCE is joining with Fogelson Props. of Chicago to develop a 69-acre lakefront site adjoining Soldier Field, Grant Park and McCormick Place. Construction won't begin for several years.

<u>Retail projects</u>: FCE broke ground for 700,000 SF Antelope Valley Mall in Palmdale, Cal., in May; is planning a 1.0 mil. SF mall on land adjoining the Parklabrea Apts. in the Mid-Wilshire area of Los Angeles; is finishing 663,000 SF Robinson Town Centre near Pittsburgh's airport and will begin an adjoining 1.0 mil. SF mall for 1991 completion; and opened a Wal-Mart at 300,000 SF Tucson (Ariz.) Place in the spring.

<u>Congregate Care</u>: In a venture with Marriott Corp., FCE is building care centers in Teaneck, N.J.; Chevy Chase, Md.; and Queens and Yonkers, N.Y.

Advice: FCE is building substantial long-term values by developing major urban properties with some insulation from competition because of their location, design and financing. The risk is that building outpaces center-city demand. With shares selling 25%-35% below our current value estimate, we advise buy/hold for long-term appreciation. (KDC)

FCE.A and FCE.B: ASE Rank B Jan. yrs. 7.95 mil. total A&B shs.
Price: $52.63-A; $56.00-B Div.$0.42(A) Yld.0.8%

Yr.	Op.EPS	CFS-x	Div.(A)	High	Low	Pr.X CFS
1986	$0.59a	$2.60	$0.30	$26.13	$20.38	10.0-7.8
1987	1.15a	3.28	0.30	38.00	22.00	11.6- 6.7
1988	0.44a	3.75b	0.34	40.50	26.75	10.8-7.1
1989	0.27a	4.24b	0.38	43.50	29.38	10.3- 6.9
1990E	NE	4.50b	0.42	56.75	39.63z	12.6-8.8

a-Before property disposition gains by unconsolidated subsidiary and discontinued lines: $0.22-'86; $0.46-87; $0.03-'88; and in '88 $1.15 credit from acctg. chnge. on income taxes; $0.72-'89. b-CFS also includes deferred mtg. interest: $0.58-'88; $0.56-'89. x-Computed by Audit as operating income plus depreciation and deferred taxes, less mtg. principal payments. z-To date.

Finances 4/89 (Mil./Bil.$): Debt corporate: $173.6M; real estate: $1.07B; Equity: $96.6M consolidated at cost. Rental Props. depreciation: $134M. Equity plus deprec.: $29.01/sh.
<u>Address</u>: 10800 Brookpark, Cleveland, O. 44130. (216) 267-1200.

ROUSE COMPANY (ROUS: OTC) RANK A

This premier national developer of suburban mall centers and urban festival centers continues growth, albeit at a somewhat slower pace. It owns directly aout 11.9 mil. sq.ft., mostly in higher-rent mall space, and manages 75 shopping centers with 45.2 mil. sq. ft. of space. Shopping center holdings, supplemented by recent office acquisitions, have given ROUS strong cash flow growth. Land sales from the new town of Columbia have imparted some volatility to EPS/CFS and are expected to fall in 1989 and thereafter as ROUS retains land for investment. The A Ranked shares are a core holding in Portfolio Selector.

Gut Issue: Will the credit firestorm engulfing Campeau Corp. hurt ROUS' retailing thrust? On balance, we think there's very little chance that ROUS will feel any direct impact from the financing flameout that hit Campeau Corp., owner of both Federated Department Stores and Allied Stores, in mid-September (see page 1). Only twelve of ROUS' 148 anchor tenants fall in the Campeau circle; two Abraham & Straus stores, Two Rich's, one Burdines -- all Federated, one Maas store, four Stern's stores, and one Bon Marche -- all Allied.

While Campeau's over-leveraging has captured headlines, the event dramatizes the over-storing now evident in many local markets, a retail fact of life which limits ROUS' potential growth thru developing new centers, especially in suburban areas. In recent years ROUS has countered with three focuses:

1. Urban multiuse projects. In these projects ROUS limits risk by working with local partners, often obtaining public financing and/or incentive contracts that limit capital risk but maximize profits from success. Urban center markets recently opened include Westlake in Seattle, opened Oct. 1988 with ROUS' 116,000 sq.ft. retail 91% leased; Underground Atlanta, opened in June 1989 with its 220,000 SF retail space 90% leased; and the first 435,000 SF office in Phoenix (Ariz.) Center opened in the spring as first part of a multi-use complex; and Pioneer Center in Seattle, where ROUS will own 147,000 SF in a downtown multiuse center.

2. Partnerships to buy existing properties. By forming specialized partnerships with major institutions, ROUS minimizes capital outlays while earning incentive management fees. In 1988 ROUS teamed with Teachers Insurance & Annuity Assn. to buy 81 offices with 5.1 mil. SF from McCormick Properties. ROUS put up 5% of the $506 mil. purchase price but manages properties under an achievement formula that could give it up to 25% of cash flow and sale gains based on performance.

ROUS also manages a $500 mil. acquisition fund set up jointly with insurance giant CIGNA to buy existing mall centers. This fund in 1988 bought 1.0 mil. SF Ridgedale Ctr. in Minnetonka, MN; 887,000 SF Southland Ctr. in Taylor, MI; and 637,000 SF Columbus (Ga.) Square. ROUS brought the number of centers it manages to 25 by assuming management of 578,000 SF Kendall Town & Country outside Miami.

3. Upgrading existing malls. ROUS is undertaking a $200 mil. in renovation and re-merchandising at its existing centers. Some capital will come from partners, the rest from ROUS, partly using proceeds from 1986 and 1987 convertible debenture sales. While interest may slow cash flow growth, ROUS expects these "re-openings" to boost CFS significantly in future years.

Shopping Centers: ROUS signifies malls to most investors. Including properties in Columbia, ROUS has interests in 75 shopping centers with 45.2 mil. sq. ft. including space owned by anchor tenants. ROUS both owns, either partly or wholly, and manages some centers; and manages centers for others. Centers, including stores owned by anchors, are as follows in millions of sq. ft. (MSF), at 12/88:

	Total	ROUS owned
Wholly owned(36).	18.7 MSF	7.6 MSF
Partly owned (16)......	12.5 "	2.5 "

ROUS centers are widely diversified geographically and include both older suburban centers and newer urban centers catering both to tourist and downtown shoppers. While development thrust remains strong, a few slower projects dragged 1988 results, including South St. Seaport in New York City, Riverwalk in New Orleans, and Bayside, Miami. Results at seasoned centers were strong. ROUS also operates 114 office properties with 8.7 mil. SF, but is approaching offices cautiously.

Columbia: ROUS is developer of the Columbia new town between Baltimore and Washington, having about 2,700 net acres of salable land left. The land was valued at $199 mil. or 6% of gross current value in 1988; ROUS should sell about $30 mil. land in 1989, down 50%, leaving about $170 mil. land after appreciation. ROUS is slowing land sales in 1989 and beyond to focus upon commercial development of the rest.

Operations and CFS: Net operating cash flow (operating earnings before depreciation and deferred taxes (EBDDT) but after mortgage principal payments) came in at $48.3 mil. or $0.97/sh., up 5%, in 1988. We expect 1989 net operating CFS to fall to about $0.85-$0.90/sh., with all the decline reflecting a 50% drop in land sale contributions. This means that quality of underlying cash flow is improving with less reliance upon land sales. Over the past five years, (EBDDT), or gross cash flow per sh. before debt service and accruals, rose at 18.3%/yr.

Current value: Appraised value of equity rose 13% in 1988 to $30.65/sh. We think this number will move up about 8% to about $33/sh. when final numbers are tallied in March 1990.

Advice: ROUS is the unquestioned leader in developing complex urban centers. By resuming development of the new town of Columbia, ROUS adds land sales potential (and volatility). Altho growth in owned properties is slowing, ROUS maintains thrust with management and jointly financed ventures. We hear that ROUS may be the subject of a negative article in Forbes magazine, but would use any dips to add to positions. **Buy/hold long-term.** (KDC)

ROUS: OTC Rank A Dec. yrs. 47.84 mil. shs.
Price: $28.00 Div. $0.56 Yld. 2.1%

Year	Op.EPS	Op.CFS	Div.	High	Low	Pr.X CFS
1985	$0.23	$0.65	$0.36	$18.13	$11.13	28-17
1986	0.35	0.76	0.40	23.00	17.13	30-22
1987	0.20	0.92	0.467	25.50	16.50	28-18
1988	0.37	0.97	0.52	24.75	18.63	26-19
1989E	NE	0.85-90	0.56	29.75	23.25z	

Operating CFS equals earnings before depreciation and deferred taxes less mortgage principal payments. z-To date.

Finances 6/89 (cash basis/Mil/Bil.$): Debt: $1.7B; Equity: $62.4M at cost; Accum. deprec. $226M; Equity $1.30/sh. at cost; Equity + deprec. $6.03/sh. Current asset value 12/88: $30.65/sh. Debt/equity ratio: 1.18-1 at current value. Holders: Trizec owns 25.0%; other officers & directors: 9.9%.
Address: Columbia, Md. 21044. (301) 992-6000.

PERINI INVESTMENT PROPERTIES INC. (PNV:ASE) RANK B

PNV is an investment property company ~~owning~~ properties primarily in Calif., Ariz., Fla. and Mass. Properties are both wholly-owned and held thru joint ventures. PNV was spun out of Perini Corp., the international general contractor.

So far PNV is making excellent progress on a revamped operating strategy, adopted in Dec. 1987, when PNV elected to swap its conservative, low yielding, low leveraged 44% investment in the landmark Alcoa Building in San Francisco for several higher yielding (but riskier) investments. The new properties are leveraged to reduce reported taxable earnings to a minimum while maximizing available cash flow. The new strategy adds more zing to PNV stock. Our B Rank and position in Portfolio Selector hold.

Gut Issue: With the completion of the Alcoa Building swap and PNV's cash flow back on track, is PNV stock a bargain? An affiliate of JMB Realty aquired PNV's interest in the 481,000 sq.ft. Alcoa Bldg., San Francisco, in a tax-free exchange for third party properties. The Alcoa building was valued at $141 mil. (approx. $311/sq. ft.) as a basis for the exchanges, with PNV's 44% interest valued at approx. $62 mil.

In the exchange PNV received five sunbelt properties (three offices, one shopping center, one office park) with a year-end appraised value of $66.8 mil. PNV received approx. $4.5 mil. in cash for its remaining 3% interest. PNV is now rolling over short-term bridge financing used during the swap for property specific long-term financing in order to achieve a better asset/liability match.

Cash flow and dividend. At first appearance, cash flow has apparently rebounded strongly from 1988's first half. June six month cash flow zoomed 475% to $0.69 per share. These comparisons may overstate PNV's cash flow rebound, because PNV experienced a cash flow drain from servicing its portion of Alcoa obligations and bridge financing before cash flow from newly obtained properties kicked in. All this put a strain on the current common dividend in 1988, which also was burdened from preferred dividend payments. The Apr. 1988 anti-dilutive redemption/conversion of the preferred ended this burden. With cash flow now making its resounding comeback, it seems likely that PNV could move to increase payout by year-end.

Net current value and cash yield (Price/cash flow ratio): At current prices PNV has a price/cash flow ratio of 12.8 times, PNV offers a cash yield of 7.8%. PNV's net current value as of June 30, is estimated by management at $25.41, so that PNV trades at a 31% discount to current asset value.

Evaporating takeover pressure: Goodtab Management Co., an investor group led by Robert Goodman, has reduced its holdings in PNV below 5%, relieving itself of S.E.C. reporting requirements. Goodtab was rebuffed twice in 1988 with a final offer of $21.50 per share, which management said was inadequate. Harris Assoc. L.P. boosted holdings to 17.2% in July; Harris also owns a big stake in Forest City.

Advice: Buy shares for low price/cash flow relative to the investment builder group and a price almost one-third below current net asset value. The results of the Alcoa exchange were successful and cash flow may now rise by 8% to 9% per year from leasing successes. The Tucson Raddison is still subsidized but has had significantly better results in an improving hotel market. (MJH)

PNV: ASE RANK B Dec. yrs. 3.91 mil. shares.
Price: $17.63 Div. $0.60 Yield 3.4% Price/CFS 12.8%

	Op.EPS	Op.CFS	Div.	High	Low	Yield
1985	$d0.08a	$0.80a	$0.10	$13.88	$11.00	0.7-0.9%
1986	d0.44a	1.00a	0.46	16.88	10.88	2.7-2.7
1987	d1.58a	1.14a	0.57	20.50	12.75	2.8-4.5
1988	d0.74	1.20	0.60	20.00	15.25	3.0-3.9
1989E	NE	1.40	0.62	18.75	15.88z	

a-Net of preferred dividends & incl. property sale gains: $0.53-'86; $0.73-'87. z-To date.

Finances 6/89 (cost basis, Mil.$): Debt: $157.3M; Equity: d$19.5M; Accum. Deprec.: $19.6M; Equity + deprec.: $0.02/sh. Current net asset value: $25.41/sh. Debt/Equity ratio: 1.60-1 at current asset value.
Address: 490 Union Avenue, Framingham, MA 01701. (508) 875-6975

DEL WEBB CORP. (WBB:NYSE) RANK C

WBB builds western retirement communities, and is best known for its Sun City and Sun City West projects outside Phoenix. WBB began geographic diversification with the opening of Sun City Vistoso in Tucson in 1986 and followed with Sun City Summerlin near Las Vegas in 1988. In Feb. 1989 WBB committed to develop Sun City at Roseville, 15 miles from Sacramento, Calif. Gambling and hotel operations have been discontinued, altho two hotels/casinos remain to be sold. A troubled Phoenix joint venture may expose WBB to some writeoffs. Rank of C is maintained.

Gut Issue: With the Claridge hotel/casino restructuring behind, can WBB overcome a soft Phoenix market and restore its faltering profit margins? In June 1989 WBB completed the restructuring of the Claridge Hotel and Casino in Atlantic City, NJ. WBB satisfied all financial and contractual obligations and terminated its management agreement. This should end WBB's costly venture into N.J. gambling.

This frees WBB to focus on its core business of building retirement communities. WBB closed 362 homes, up 30% in the six months. New sales contracts soared 122% and backlog jumped 177% at June 30 to 1,115 DU compared to 1988. Backlog amounts to $145.3 mil., and since most of this volume should be delivered in the second half, full-year sales volume should be 20% or better ahead of 1988.

But margins are being squeezed even as volume soars. Gross margins fell to 19.2% in the first half of 1989, down from 23.1% in 1988. Part of the problem is that average sales price fell 2% to $130,000 in the first half. Also sales in the weak Phoenix market are flat. And finally, much of the increase in revenues, as well as costs, is attributable to opening of Sun City Summerlin, which accounts for nearly 60% of backlog.

EPS impact. The net result of the margin squeeze was a $0.38/sh. loss in the first half, compared to $0.28/sh. red ink in 1988. Start-up costs at Summerlin should level off in the second half and with much higher volume expected, WBB could generate moderate profits for the year excluding any writeoffs on the Towne Meadows loan (see below). WBB has $115 mil. in net operating loss carry forwards to shelter future earnings.

Lingering EPS threats. In New Jersey, WBB still may be liable for a $20 mil. collection guarantee on the Claridge first mortgage should the Claridge file for bankruptcy within a year of the close of the restructuring. We think this has low probability.

But one of three joint venture developments in Arizona is faltering. The 25%-owned Towne Meadows project in southeast Phoenix for first-time buyers is in danger of foreclosure due to lack of funding from a 50% partner. WBB doubts that its partners are good for all of their share of a $3.9 mil. mortgage which WBB has guaranteed. Altho WBB carries the project as a net liability of $91,000 (cumulative losses exceed WBB's investment), WBB could lose up to $0.42/sh. if it has to make good on the entire loan and cannot recover from its partners.

The second joint venture, the Foothills master-planned golf community in Southeast Phoenix, seems on track. In July 1989 WBB began a third joint venture to develop 5,700 acres that may lead to its third retirement community in Phoenix.

Financing to defuse takeovers. In June 1989 WBB closed an offering for $53.57 mil. in 10-3/8% subordinated debentures convertible at $15 per share. Two members of a 5.7% shareholder group, formerly led by Calmark Holding Corp., sued to enjoin the offer but were denied. Conversion would add 38% to shares outstanding and obviously makes WBB less attractive as a takeover candidate. Other large holders with varying objectives in WBB include Webcott Holdings, with 894,500 shares or 9.6% of shares outstanding and whose general partner James Cotter was elected to WBB's board in May. New Zealand conglomerate Industrial Equity owns 9.6% and Cohen & Steers Capital Management holds 5.1%.

Advice: Wait or play for recovery potential. Even though focused housing operations appear viable, the downside continues to outweigh turnaround possibilities until the Phoenix market stabilizes and the Towne Meadows loan guarantee is resolved. Large shareholder groups could still make a play for land rich WBB but the recent financing makes this less likely. (MJH)

(WBB:NYSE) RANK C Dec. yrs. 9.37 mil. shares.
Price: $10.00 Div. None Yld: None Price/EPS: NM

	Op.EPS	Div.	High	Low	Yield
1985	$ 2.02a	$0.20	$23.38	$16.50	9.9-7.0%
1986	2.60a	0.20	28.25	19.13	11.3-7.7
1987	d0.76a	0.15	16.50	6.75	NM-NM
1988	d0.08a	0.00	16.50	7.25	NM-NM
1989E	0.05b	0.00	15.75	9.88z	

a-After preferred stock dividend and before losses from discontinued operations: '85-$0.04/sh.; '86-$0.23/sh.; '87-$10.21/sh.; '88-$1.65/sh. Also excluded from 1987 results are $0.12/sh. extraordinary loss and $0.46/sh. loss from accounting change. b-Excludes any loan guarantee losses on Towne Meadows. z-To date.

Finances 6/89 (Mil.$): Debt: $112.1M; Equity: $61.6M or $6.58/sh. Debt/Equity ratio: 1.82-1.
Address: 2231 East Camelback Road, Phoenix, AZ 85016. Phone: (602) 468-6800.

LANDMARK LAND CO. (LML:ASE) RANK C

LML is a major golf course community developer now expanding rapidly into financial services, aimed mainly at the troubled Oil Patch thrift industry. LML develops high-end golf-course communities, along with related office, retail, and hotel/resort properties. Major holdings are in California (Mission Hills and PGA West), Louisiana and Florida (Palm Beach Polo Club). In March 1989 LML acquired a package of resort properties on Kiawah Island, S.C. Other LML properties include approx. 13.8 acres zoned retail/office in Southeast Denver, and 23,000 acres in Louisiana booked at 1919-20 appraised value.

LML's growing financial services now include savings banking in La. and Okla. (via Landmark Savings Bank and Oak Tree Savings Bank), mortgage banking (via Oak Tree Mortgage Corp.), and management and operation of troubled S&Ls and foreclosed properties (via Oak Tree Capital, Inc. and Landmark Asset Management Group). In May 1988 LML acquired a credit life insurer, First Life Assurance Co. of Oklahoma City.

The marriage of land developer with financier has enhanced LML's ability to finance development work but results in large swings in quarterly EPS (e.g., $1.08/sh. loss in the March 1989 Qtr., offset by $2.21/sh. income in June , result of a $3/sh. pretax gain on a major land sale). Two major shareholders control 54% of LML's thinly traded shares: Pres. Gerald Barton with 29.4% and Canadian realty giant Olympia & York at 24.7%. We cannot rule out a going-private move. Shares retain C Rank. **Advice: Aggressive investors may use LML as a play on S&L industry recovery and land value creation.** (KDC)